

**REPORT OF THE AUDIT OF THE
MENIFEE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MENIFEE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Menifee County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued a qualified opinion on the financial statements taken as a whole. We qualified our opinion because financial statements were not prepared for the Forest Fire Protection Fund, Wellness Fund, Echo Fund, Health Tax Fund, and Menifee County Public Properties Corporation Fund.

Financial Condition:

Fund balances increased by \$ 96,718 from the beginning of the year, resulting in a cash surplus of \$ 99,950 as of June 30, 2003.

Debt Obligations:

Capital lease principal agreements totaled \$ 955,000 as of June 30, 2003. Future principal and interest payments of \$ 1,513,115 are needed to meet these obligations.

Report Comments:

- The Treasurer Did Not Prepare An Accurate And Complete 4th Quarter Financial Statement
- The Treasurer Should Maintain All Records Necessary For Audit
- The Fiscal Court Should Review Monthly Reports And Approve All Transfers
- All Employees Should Maintain Timesheets
- Expenditures Should Have Proper Documentation And Meet Compliance Requirements
- The Treasurer Should Prepare An Annual Financial Statement And Have It Published In Accordance With KRS 424.220
- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards
- The Fiscal Court Should Deposit Funds In Interest-Bearing Bank Accounts And Should Create An Investments Policy
- The County Should Have A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable James D. Trimble, Menifee County Judge/Executive
Members of the Menifee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Menifee County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Menifee County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Menifee County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Forest Fire Protection Fund, Wellness Fund, Echo Fund, and Health Tax Fund are considered county funds and their financial activity should be included with that of the Menifee County Fiscal Court. However, the Treasurer did not prepare year-end financial statements and did not maintain receipts and disbursements ledgers for these funds as required by the uniform system of accounts established by the Governor's Office for Local Development. Further, the Menifee County Public Properties Corporation (the Corporation) is a component unit of the Menifee County Fiscal Court and the Corporation's financial activity should be blended with that of Menifee County Fiscal Court. However, the Corporation did not prepare a year-end financial statement and did not maintain receipts or disbursements ledgers. Therefore, we have not included the financial transactions of the Forest Fire Protection Fund, Wellness Fund, Echo Fund, Health Tax Fund and the Menifee County Public Properties Corporation in our audit. The amounts that should be recorded in the Forest Fire Protection Fund, Wellness Fund, Echo Fund, Health Tax Fund and the Menifee County Public Properties Corporation are not known.



To the People of Kentucky
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Members of the Menifee County Fiscal Court

In our opinion, except for the possible effect of the matters described above on the financial statements, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Menifee County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 14, 2004, on our consideration of Menifee County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Menifee County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Treasurer Did Not Prepare An Accurate And Complete 4th Quarter Financial Statement
- The Treasurer Should Maintain All Records Necessary For Audit
- The Fiscal Court Should Review Monthly Reports And Approve All Transfers
- All Employees Should Maintain Timesheets
- Expenditures Should Have Proper Documentation And Meet Compliance Requirements
- The Treasurer Should Prepare An Annual Financial Statement And Have It Published In Accordance With KRS 424.220
- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards
- The Fiscal Court Should Deposit Funds In Interest-Bearing Bank Accounts And Should Create An Investments Policy
- The County Should Have A Written Agreement To Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 14, 2004

MENIFEE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

James D. Trimble	County Judge/Executive
Bob Ross	Magistrate
Joe Thomas	Magistrate
David Wells	Magistrate
Glenn Mullins	Magistrate
Rick Crain	Magistrate

Other Elected Officials:

John Nefzger	County Attorney
Ruby Morrison	Jailer
Joann Curtis	County Clerk
Karen Wells-Sorrell	Circuit Court Clerk
Rodney Coffey	Sheriff
Jim Lawson	Property Valuation Administrator
Scott Ferrell	Coroner

Appointed Personnel:

Stuart Salyers	County Treasurer
Dwayne Smallwood	Road Supervisor

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

MENIFEE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 67,570	\$ 32,380	\$ 99,950
Total Assets	\$ 67,570	\$ 32,380	\$ 99,950
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:	\$	\$	\$
Capital Lease	955,000		955,000
Total Other Resources	\$ 955,000	\$ 0	\$ 955,000
Total Assets and Other Resources	<u>\$ 1,022,570</u>	<u>\$ 32,380</u>	<u>\$ 1,054,950</u>

The accompanying notes are an integral part of the financial statements.

MENIFEE COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	<u>Governmental Fund Type</u>		<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease (Note 5)	\$ 955,000	\$	\$ 955,000
Notes Payable (Note 4)	55,430		55,430
Total Liabilities	<u>\$ 1,010,430</u>	<u>\$ 0</u>	<u>\$ 1,010,430</u>
<u>Equity</u>			
Fund Balances:			
Unreserved	<u>\$ 12,140</u>	<u>\$ 32,380</u>	<u>\$ 44,520</u>
Total Equity	<u>\$ 12,140</u>	<u>\$ 32,380</u>	<u>\$ 44,520</u>
Total Liabilities and Equity	<u><u>\$ 1,022,570</u></u>	<u><u>\$ 32,380</u></u>	<u><u>\$ 1,054,950</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MENIFEE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,047,853	\$ 907,383	\$ 30,775	\$ 277,064
Other Financing Sources:				
Transfers In	185,201	30,000	130,000	20,000
Borrowed Money	50,000			
Kentucky Advance Revenue Program	1,991,700	53,000		
Total Cash Receipts	<u>\$ 3,274,754</u>	<u>\$ 990,383</u>	<u>\$ 160,775</u>	<u>\$ 297,064</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,000,804	\$ 743,862	\$ 162,260	\$ 285,698
Other Financing Uses:				
Transfers Out	186,000	186,575	26	10,000
Capital Lease Principal	35,000			
Kentucky Advance Revenue Program Repaid	1,991,700	53,000		
Total Cash Disbursements	<u>\$ 3,213,504</u>	<u>\$ 983,437</u>	<u>\$ 162,286</u>	<u>\$ 295,698</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 61,250	\$ 6,946	\$ (1,511)	\$ 1,366
Cash Balance - July 1, 2002	<u>(11,825)</u>	<u>2,632</u>	<u>3,786</u>	<u>4,926</u>
Cash Balance - June 30, 2003	<u><u>\$ 49,425</u></u>	<u><u>\$ 9,578</u></u>	<u><u>\$ 2,275</u></u>	<u><u>\$ 6,292</u></u>

The accompanying notes are an integral part of the financial statements.

MENIFEE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2003
(Continued)

<u>Special Revenue Fund Type</u>		
<u>911 Fund</u>	<u>Parks and Recreation Fund</u>	<u>Totals (Memorandum Only)</u>
\$ 67,508	\$ 49,764	\$ 2,380,347
9,000	12,000	386,201
		50,000
		<u>2,044,700</u>
<u>\$ 76,508</u>	<u>\$ 61,764</u>	<u>\$ 4,861,248</u>
\$ 70,302	\$ 35,703	\$ 2,298,629
	3,600	386,201
		35,000
		<u>2,044,700</u>
<u>\$ 70,302</u>	<u>\$ 39,303</u>	<u>\$ 4,764,530</u>
\$ 6,206	\$ 22,461	\$ 96,718
<u>3,670</u>	<u>43</u>	<u>3,232</u>
<u>\$ 9,876</u>	<u>\$ 22,504</u>	<u>\$ 99,950</u>

The accompanying notes are an integral part of the financial statements.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Menifee County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management should include the Menifee County Public Properties Corporation as part of the reporting entity. However, because the Corporation did not prepare financial statements, its financial information is not reported with that of Menifee County Fiscal Court.

Additional - Menifee County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Menifee County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Menifee County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Menifee County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund and Local Government Economic Assistance Fund.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Menifee County Special Revenue Fund Type includes the following county funds: 911 Fund, Parks and Recreation Fund, Forest Fire Protection Fund, Wellness Fund, Echo Fund, and Health Tax Fund. Only the 911 Fund and Parks and Recreation Fund are included in this report.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Menifee County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Menifee County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Menifee County Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Governor's Office for Local Development does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

MENIFEE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution pledged or provided sufficient collateral to protect deposits. However the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>340,368</u>
Total	<u><u>\$ 440,368</u></u>

Note 4. Short-Term Debt

On December 26, 2002, the Meniffee County Fiscal Court borrowed \$9,018 at an interest rate of 6.0% from Traditional Bank. The note requires 12 monthly payments of \$776. As of June 30, 2003, the principal balance was \$5,330.

On March 28, 2003, the Meniffee County Fiscal Court borrowed \$50,100 at an interest rate of 4.75% from Traditional Bank. The note requires one principal payment of \$50,100 plus interest on June 30, 2003. As of June 30, 2003, the principal balance was \$50,100. Subsequently, on July 29, 2003, the Meniffee County Fiscal Court borrowed \$50,200 to pay this note in full.

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases

- A. On September 12, 2001, the Menifee County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust for various projects including courthouse renovation and industrial park improvements in the amount of \$785,000. The agreement requires two semiannual interest payments be made in March and September of each year commencing March 1, 2002. Principal payments are due in September of each year commencing September 1, 2002, to be paid in full September 1, 2026. As of June 30, 2003, the principal balance remaining was \$765,000. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 38,830	\$ 20,000
2005	37,874	25,000
2006	36,811	25,000
2007	35,749	25,000
2008	34,642	25,000
2009-2013	152,788	150,000
2014-2018	110,716	195,000
2019-2023	51,615	215,000
2024-2027	<u>9,940</u>	<u>85,000</u>
Totals	<u>\$ 508,965</u>	<u>\$ 765,000</u>

MENIFEE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

- B. On March 21, 2002, the Menifee County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$205,000. The funds were used to pay a settlement with Ohio Casualty Company relating to an overpayment of insurance premium taxes paid by Ohio Casualty Company to the Menifee County Fiscal Court. The agreement requires two semiannual interest payments be made in May and November of each year commencing November 1, 2002. Principal payments are due in May of each year commencing May 1, 2003, to be paid in full May 1, 2012. As of June 30, 2003, the principal balance remaining was \$190,000. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 9,085	\$ 15,000
2005	8,395	20,000
2006	7,475	20,000
2007	6,555	20,000
2008	5,635	20,000
2009-2012	<u>12,005</u>	<u>95,000</u>
Totals	<u>\$ 49,150</u>	<u>\$ 190,000</u>

Note 6. Insurance

For the fiscal year ended June 30, 2003, Menifee County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MENIFEE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,160,083	\$ 1,047,853	\$ (112,230)
Road and Bridge Fund	1,068,212	907,383	(160,829)
Jail Fund	32,061	30,775	(1,286)
Local Government Economic Assistance Fund	215,743	277,064	61,321
<u>Special Revenue Fund Type</u>			
911 Fund	73,000	67,508	(5,492)
Parks and Recreation Fund	62,199	49,764	(12,435)
Totals	<u>\$ 2,611,298</u>	<u>\$ 2,380,347</u>	<u>\$ (230,951)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,611,298
Add: Budgeted Prior Year Surplus			14,035
Less: Other Financing Uses			<u>(35,000)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 2,590,333</u>

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SCHEDULE OF OPERATING REVENUE

MENIFEE COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPE</u>			
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 397,080	\$ 67,508	\$ 464,588
In Lieu Tax Payments	64,355		64,355
Excess Fees	15,772		15,772
Intergovernmental Revenues	1,333,718		1,333,718
Charges for Services	3,000	8,208	11,208
Miscellaneous Revenues	424,403	41,556	465,959
Interest Earned	24,747		24,747
Total Operating Revenue	<u>\$ 2,263,075</u>	<u>\$ 117,272</u>	<u>\$ 2,380,347</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MENIFEE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 694,225	\$ 659,576	\$ 34,649
Protection to Persons and Property	150,968	197,722	(46,754)
General Health and Sanitation	199,137	281,763	(82,626)
Social Services	8,776	8,776	
Roads	672,151	577,632	94,519
Debt Service	60,962	60,962	
Administration	628,197	406,193	222,004
Total Operating Budget - General Fund Type	\$ 2,414,416	\$ 2,192,624	\$ 221,792
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal		2,044,700	(2,044,700)
Capital Lease Agreements- Principal on Leases	35,000	35,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 2,449,416</u>	<u>\$ 4,272,324</u>	<u>\$ (1,822,908)</u>

MENIFEE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 57,028	\$ 57,369	\$ (341)
Recreation and Culture	66,921	35,580	31,341
Administration	51,968	13,056	38,912
Total Operating Budget - Special Revenue Fund Type	\$ 175,917	\$ 106,005	\$ 69,912
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 175,917	\$ 106,005	\$ 69,912

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James D. Trimble, Menifee County Judge/Executive
Members of the Menifee County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Menifee County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated July 14, 2004, wherein we qualified our opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Menifee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2003-1:** The Treasurer Did Not Prepare An Accurate And Complete 4th Quarter Financial Statement
- **Reference Number 2003-2:** The Treasurer Should Maintain All Records Necessary For Audit
- **Reference Number 2003-3:** The Fiscal Court Should Review Monthly Reports And Approve All Transfers
- **Reference Number 2003-4:** All Employees Should Maintain Timesheets
- **Reference Number 2003-5:** Expenditures Should Have Proper Documentation And Meet Compliance Requirements
- **Reference Number 2003-6:** The Treasurer Should Prepare An Annual Financial Statement And Have It Published In Accordance With KRS 424.220

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance (Continued)

- **Reference Number 2003-7:** The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards
- **Reference Number 2003-8:** The Fiscal Court Should Deposit Funds In Interest-Bearing Bank Accounts And Should Create An Investments Policy
- **Reference Number 2003-9:** The County Should Have A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Menifee County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Menifee County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs.

- **Reference Number 2003-3:** The Fiscal Court Should Review Monthly Reports And Approve All Transfers
- **Reference Number 2003-4:** All Employees Should Maintain Timesheets
- **Reference Number 2003-5:** Expenditures Should Have Proper Documentation And Meet Compliance Requirements
- **Reference Number 2003-10:** Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the items listed above to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 14, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James D. Trimble, Menifee County Judge/Executive
Members of the Menifee County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Menifee County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Menifee County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Menifee County's management. Our responsibility is to express an opinion on Menifee County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Menifee County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Menifee County's compliance with those requirements.

In our opinion, Menifee County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Menifee County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Menifee County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 14, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MENIFEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses a qualified opinion on the financial statements of Menifee County.
2. Four reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. The conditions are reported as material weaknesses.
3. Nine instances of noncompliance material to the financial statements of Menifee County were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal awards programs and none are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Menifee County expresses an unqualified opinion.
6. No audit findings relative to the major federal awards programs for Menifee County are reported in Part C of this schedule.
7. The program tested as a major program was: PRIDE – (CFDA # 11.469).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Menifee County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONCOMPLIANCES:

Reference Number 2003-1

The Treasurer Did Not Prepare An Accurate And Complete 4th Quarter Financial Statement

During the course of our audit, we noted numerous problems related to the presentation and disclosure of the 4th Quarter Financial Statement as noted below:

- Ending cash balances on the 4th Quarter Financial Statement did not agree to the reconciled bank balances.
- Encumbrances should have been reported on the front page of the 4th Quarter Financial Statement.
- Transfers In and Transfers Out did not agree and had a difference of \$2,178,306. These amounts should always agree.
- Large amounts were posted to Miscellaneous. Miscellaneous accounts should be used sparingly.
- All funds were not shown on the 4th Quarter Financial Statement. The Forest Fire Protection Fund, Wellness Fund, Echo Fund, Health Tax Fund, and Public Properties Corporation Fund were not reported.
- The Liabilities Section should be prepared which describes all bonds, leases, and notes.

We recommend the Treasurer prepare an accurate 4th Quarter Financial Statement that depicts the true financial condition of the county.

County Judge/Executive James D. Trimble's Response:

Currently being done and will verify by Department of Local Government.

MENIFEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2003-2

The Treasurer Should Maintain All Records Necessary For Audit

The Treasurer did not make the following records available during the audit:

- Approved Budget and Amendments
- Calendar Year 2002 W-2s
- Payroll Bank Reconciliation for June 30, 2003
- Schedule of Expenditures of Federal Awards
- Liabilities Worksheet
- Related Party Questionnaires
- Encumbrances as of June 30, 2003

We obtained the budget and amendments from the Governor's Office for Local Development ourselves, however, the Treasurer should have already had this information. Further, the receipt and disbursement ledgers were not made available to us until two weeks into the audit. We recommend the Treasurer maintain all records necessary for the audit in the future.

County Judge/Executive James D. Trimble's Response:

In the future, in locked storage room divided by fiscal years.

Reference Number 2003-3

The Fiscal Court Should Review Monthly Reports And Approve All Transfers

The Fiscal Court Order Book did not always include mention of the Treasurer submitting monthly reports to the fiscal court for review or approval of transfers. Monthly financial reports should be submitted to the fiscal court so the magistrates are aware of the financial condition of the county. Also all cash transfers between funds require fiscal court approval. When presenting these items to the fiscal court, be sure they are recorded in the minutes. We recommend the fiscal court review monthly reports and approve all transfers in the future.

County Judge/Executive James D. Trimble's Response:

Is currently being done.

MENIFEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2003-4

All Employees Should Maintain Timesheets

Timesheets were not maintained for the county treasurer, sheriff's deputies, and other salaried employees. KRS 337.320 states every employer shall keep record of the hours worked each day and each week by each employee. Timesheets should be kept for payroll verification and as a record of leave time used. We recommend all employees maintain timesheets in the future.

County Judge/Executive James D. Trimble's Response:

We will request these timesheets from all departments.

Reference Number 2003-5

Expenditures Should Have Proper Documentation And Meet Compliance Requirements

We could not find invoices and other supporting documentation for several items on our test of expenditures. Also, we could not determine that items requiring bids were properly bid. Many items tested were not paid within 30 working days as required. Further, we could not find fiscal court approval for some of the items tested. We recommend the county maintain proper documentation for all expenditures and meet the compliance requirements noted above.

County Judge/Executive James D. Trimble's Response:

Proper documents are currently being done.

Reference Number 2003-6

The Treasurer Should Prepare An Annual Financial Statement And Have It Published In Accordance With KRS 424.220

The Treasurer did not prepare and publish an annual financial statement. KRS 424.220 requires the Treasurer to publish an annual financial statement within 60 days following the end of the fiscal year. The financial statement is required to show the total amount collected and received from each individual source and the total amount of funds disbursed to each individual payee. We recommend the Treasurer prepare an annual financial statement and that it be published in accordance with KRS 424.220.

County Judge/Executive James D. Trimble's Response:

Currently being done, will be approved by fiscal court.

MENIFEE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2003-7

The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards

OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organization, section 310(B) requires the auditee to prepare a schedule of expenditures of federal awards covered by the auditee's financial statements. At a minimum, the schedule shall include:

- List of individual Federal programs by Federal Agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For Example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity.
- Total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- Notes that describe the significant accounting policies used in preparing the schedule.
- To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- In either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

We recommend compliance with this requirement.

County Judge/Executive James D. Trimble's Response:

Currently being done.

Reference Number 2003-8

The Fiscal Court Should Deposit Funds In Interest-Bearing Bank Accounts And Should Create An Investments Policy

The Fiscal Court currently does not have an investments policy. KRS 66.480 requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. The Fiscal Court also does not earn interest on any of the county's funds. This would be an additional source of revenue for the county. We recommend the Fiscal Court create an investments policy and begin depositing funds into interest-bearing accounts.

County Judge/Executive James D. Trimble's Response:

Currently being done.

MENIFEE COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

NONCOMPLIANCES: (Continued)

Reference Number 2003-9

The County Should Have A Written Agreement To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of August 31, 2002, the county had bank deposits of \$440,368; FDIC insurance of \$100,000; and collateral pledged or provided which was sufficient to protect deposits. Even though the county obtained sufficient collateral, there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral. We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

County Judge/Executive James D. Trimble's Response:

Currently being done.

REPORTABLE CONDITIONS:

Reference Number 2003-10

Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size that prevents adequate division of responsibilities. Furthermore, the Treasurer has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend the following controls be implemented to properly segregate accounting duties:

- The County Judge/Executive's office should maintain a separate appropriation ledger and reconcile monthly to the Treasurer's appropriation ledger.
- An independent person should list all receipts and agree them back to the Treasurer's receipt ledger.
- An independent person should complete bank reconciliations monthly or review the Treasurer's bank reconciliations for accuracy.
- The County Judge/Executive's office, or someone independent of the Treasurer, should issue all purchase orders.
- Someone independent of check writing and posting duties should match purchase orders to checks and invoices.

MENIFEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

REPORTABLE CONDITIONS: (Continued)

Reference Number 2003-10 (Continued)

Lacks Adequate Segregation Of Duties

County Judge/Executive James D. Trimble's Response:

May be hiring an additional employee or give duties to Executive Secretary.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Treasurer Did Not Complete An Accurate And Complete 4th Quarter Financial Statement
- The Treasurer Should Maintain All Records Necessary For Audit
- The Fiscal Court Should Prepare A Schedule Of Expenditures Of Federal Awards
- The Fiscal Court Should Deposit Funds In Interest-Bearing Bank Accounts And Should Create An Investments Policy
- Lacks Adequate Segregation Of Duties

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MENIFEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
National Oceanic and <u>Atmospheric Administration</u>		
Passed-Through Center for Rural Development:		
Pride Super Grant - (CFDA # 11.469)	SG02-03	\$ 201,566
PRIDE Communtiy Grant - (CFDA # 11.469)	Not Available	6,474
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
COPS in Schools (CFDA # 16.710)	2002 SHWX 0495	31,049
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- February 2003 Ice Storm (CFDA #83.544)	FEMA -1454-DR-KY	99,223
		<hr/>
Total Cash Expenditures of Federal Awards		<u><u>\$ 338,312</u></u>

MENIFEE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Menifee County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

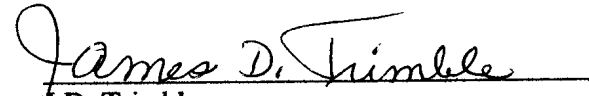
MENIFEE COUNTY FISCAL COURT

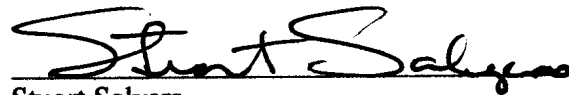
For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS
MENIFEE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Menifee County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


J.D. Trimble
County Judge/Executive


Stuart Salyers
County Treasurer

